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SUBJECT: How Will China Achieve Its Energy Efficiency Target?

REF: A) Guangzhou 32430

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SUMMARY

¶1. (SBU) China must use energy efficient products and technologies, implement structural changes in its high energy-consuming industries, and improve its management of energy conservation efforts, according to government officials and experts who gathered in Hainan Province in November 2006 for the Forum on Implementing China's 2010 20% Energy Efficiency Target. Commercial and investment opportunities exist for U.S. companies that provide energy efficient equipment and services for the steel, cement, glass, chemical, and power industries. Energy conservation efforts will focus on the construction, transportation, and industrial sectors. Challenges that will hinder Chinese efforts include: local governments' motivation to pursue higher economic growth rates rather than energy efficiency, lack of proper methodology for disaggregating energy efficiency targets, the presence of high energy-consuming small enterprises that are hard to oversee, lack of proper incentive strategies, and insufficient financing or investment systems. China's energy demand will likely reach 3.36 billion tons of coal by 2010, up 70.6% from the 2004 level of 1.97 billion tons of coal. END SUMMARY.

BACKGROUND

¶2. (U) China's 11th Five-Year Plan calls for a massive program to improve energy efficiency nationwide, including a national energy intensity target which would reduce energy consumption per unit of gross domestic product (GDP) 20% by 2010. The National Development and Reform Commission (NDRC) is taking the lead on (1) allocating reduction targets among provinces and industrial sectors, and (2) adopting energy efficiency improvement criteria for

evaluating the job performance of local government officials.

¶13. (SBU) The NDRC has signed "accountability contracts" with 30 provincial, autonomous region, and municipal governments, assigning them their respective targets. The majority of contracts specify a 20% reduction in energy intensity, while a few contracts specify higher or lower targets depending on the particular circumstances of the province or region.

¶14. (U) The Forum's sponsor, The China Sustainable Energy Program, is the joint creation of The David and Lucile Packard Foundation, The William and Flora Hewlett Foundation, and the Energy Foundation. Participants in the November Forum included officials from the NDRC, China Academy of Social Sciences, Energy Research Institute, State Council Research Office, Tsinghua University, Ministry of Construction, State Environmental Protection Administration (SEPA), and the National People's Congress (NPC), among others.

THREE BASIC PRINCIPLES

¶15. (U) Participants agreed that to achieve the Five-year Plan targets, the government must combine market-based, legal, and administrative mechanisms, couple short- and long-term goals, and link the efforts of central and local governments.

TARGETED SECTORS

GUANGZHOU 00032459 002 OF 004

¶16. (U) Energy conservation efforts will focus on the construction, transportation, and industrial sectors. Companies in the steel, non-ferrous metal, coal, electricity, chemical, petro-chemical, construction material, textile, paper, and pulp industries are specifically targeted for improvement.

TECHNOLOGICAL IMPROVEMENTS

¶17. (SBU) Technological improvements suggested by the Forum's participants could create export opportunities for U.S. companies, particularly for companies that provide energy efficiency equipment and services for the steel, cement, glass, chemical, and power industries. However, Tsinghua University's He Jiankun cautioned that China

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"cannot blindly import foreign technology and standards."

¶18. (SBU) Recommendations include:

a) Phase out outdated production processes, technology, and equipment in the steel, cement, glass, chemical, and power industries. Promote high-grade materials and blast furnaces. Retrofit coal-fired industrial boilers and kilns. Promote advanced flotation process and full insulation furnace technology in the glass industry. Develop large-scale combined cycle power plant technology.

b) Accelerate research and development for advanced energy conservation technology and products, as well as their dissemination and application.

c) Develop renewable and alternative energy technology.

d) Encourage international exchanges and cooperation.

STRUCTURAL ADJUSTMENTS

¶ 9. (SBU) Recommendations for structural changes in China's high energy-consuming industries include:

a) Promote the service sector; restrain the high energy consuming manufacturing and industrial sectors. He Bingguang from the NDRC's Department of Resource Conservation and Environmental Protection used the phrase "active readjustment" to describe this shift towards tertiary industries.

b) Promote high-tech industries.

c) Diversify energy base; reduce coal consumption.

MANAGEMENT IMPROVEMENTS

¶ 10. (SBU) Recommendations for China's management of energy conservation efforts include:

a) Improve energy efficiency legal regulations and standards. Amend the Energy Conservation Law; a proposal will be submitted to the NPC Standing Committee for review in 2007. Amendments will focus on the energy conservation management system, primary energy conservation regulations, energy savings incentives, liability issues, energy conservation in commercial and residential buildings, as well as in transportation.

b) Use energy conservation and environmental protection targets to evaluate local government performance and establish a dynamic evaluation and monitoring system.

c) Establish an energy efficiency evaluation framework

GUANGZHOU 00032459 003 OF 004

for fixed-capital investment projects.

d) Strengthen energy efficiency management in energy-intensive enterprises.

e) Improve energy efficiency labeling and product certification. Implement compulsory energy efficiency standards for household appliances, lighting, and industrial facilities.

f) Strengthen demand-side management (DSM) and electric power distribution management.

g) Reform the energy pricing system to reflect resource availability, market demand, and environmental externalities. Pricing reform would include electricity, petroleum, natural gas, and coal. It would likely increase the cost of energy consumption that exceeds a certain quota.

h) Implement preferential energy efficiency tax policies. Develop a list of energy efficiency products, discourage exports of high energy intensity or highly polluting products, develop a fuel tax system, and reform the resource tax.

i) Strengthen oversight and inspection. Increase pollution penalties such that the cost of polluting exceeds the cost of cleaner production.

j) Implement emissions trading schemes.

k) Improve the collection of energy statistics. Increase support for Statistics Departments, recruit more trained staff, and improve statistical methods. Strengthen energy intensity statistics audit and verification. Participants mentioned several key indicators and statistics that should be analyzed on the local, provincial, and national level: GDP (total and per capita), energy consumption (total and

per capita), energy consumption elasticity coefficient, energy mix, energy input/output, energy consumption per RMB 10,000 (USD 1,275), energy price, investment rate, and per capita income.

1) Establish a national energy conservation center which would integrate current institutions, carry out policy studies, evaluate energy conservation aspects of capital investment projects, disseminate energy conservation techniques, conduct training, provide information, and manage international exchanges and cooperation.

m) Improve energy efficiency in government agencies. Retrofit government buildings' heating, air conditioning, and lighting systems. Encourage government procurement of energy conservation products. Integrate energy conservation into daily work habits.

n) Broaden sources of funding to provide stable energy efficiency investment. Opportunities for U.S. investment in energy conservation projects will likely multiply. Establish a special energy conservation fund. Encourage enterprises to self-finance or use loans from international financial organizations and foreign governments. Encourage financial institutions to increase current lending for energy efficiency.

o) Implement further energy efficiency publicity, education, and training. Publish energy consumption indexes.

CHALLENGES

¶11. (U) Forum participants outlined several challenges that

GUANGZHOU 00032459 004 OF 004

will hinder China's energy conservation efforts.

¶12. (SBU) Professor Yao Yufang from China's Academy of Social Sciences estimated that structural and technological improvements would only result in 13.7% energy savings by 2010, falling well short of the 20% goal. If no improvements are made and the current economic growth continues, energy intensity would increase by 4.6%, according to Yao.

¶13. (SBU) Zhou Dadi from the Energy Research Institute identified four main challenges: (1) lower levels of government still had greater motivation to pursue higher growth rates rather than focus on energy conservation, (2) officials lack proper "scientific" methodology for disaggregating energy efficiency targets, (3) energy conservation information services cannot meet the demand of local government and enterprises concerning energy-saving technologies and products, and (4) high energy-consuming and high polluting small enterprises are widespread and hard to oversee; environmental pollution from industrialization has spread from cities to rural villages.

¶14. (SBU) Zhou emphasized that local implementation of energy efficiency measures is key, adding that China would not likely meet the energy conservation target for 2006.

¶15. (SBU) Wu Yong from the Ministry of Construction noted that developers lack the will or incentive to build energy efficient buildings, and that residents do not actively conserve energy. Wu also mentioned legal and financial difficulties in retrofitting existing buildings, such as varied types of building ownership and insufficient financing or investment systems.

STATISTICAL PREDICTIONS

¶16. (SBU) Zhou predicted that by 2010, China's GDP growth

rate will be 9.9%, the total energy demand will be 3.36 billion tons of coal (up 70.6% from the 2004 level), and the energy consumption elasticity coefficient (an indicator to show the relationship between the growth rate of energy consumption and the growth rate of the national economy) will be 0.52.

COMMENT

¶17. (SBU) While the Forum was sponsored by NGOs, many of the recommendations from its influential participants will almost certainly be implemented. Some participants were openly skeptical that the 11th Five-year Plan's ambitious energy intensity targets will be met. The Forum provided an opportunity for a frank discussion of methods and challenges among officials, experts, and civil society.

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